

AUDITING PROCEDURES REPORT

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Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of Lathrup Village, Michigan</u>	County Oakland
Audit Date June 30, 2004	Opinion Date September 17, 2004	Date Accountant Report Submitted To State: November 19, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 27400 Northwestern Highway	City Southfield	State MI	ZIP 48034
Accountant Signature <i>Plante & Moran, PLLC</i>			

City of Lathrup Village, Michigan

Financial Report with Supplemental Information June 30, 2004

Frank M. Brock, Jr., Mayor
Duane Welch, Mayor Pro-Tem
Kyrian Nwagwu, Council Member
Renee McClain, Council Member
Allen Weeks, Council Member
Jeffrey A. Bremer, City Administrator

City of Lathrup Village, Michigan

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Independent Auditor's Report

To the City Council
City of Lathrup Village, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lathrup Village, Michigan as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Lathrup Village, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lathrup Village, Michigan as of June 30, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the City Council
City of Lathrup Village, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lathrup Village, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 12, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of July 1, 2003.

Plante & Moran, PLLC

September 17, 2004

City of Lathrup Village, Michigan

Management's Discussion and Analysis

Starting with the 2003-2004 fiscal year, the City of Lathrup Village will see revised financial statements as a result of the necessary implementation of standards set by the Governmental Accounting Standards Board (GASB). While the intent of these new standards is to provide citizens, taxpayers, customers, and investors with a better understanding of how the City's money and assets are managed, the reality is that the standards have created burdensome requirements for staff and financial statements that are no easier to read and understand than previous financial reports.

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

As a part of the new requirements, the City Administrator is required to provide a section entitled "managements' discussion and analysis." This section will attempt to clarify the financial highlights for the 2003-2004 fiscal year. Much like the budget message and year-end budget analysis that I have traditionally provided to you, this section will provide, in part, a repetition of previously provided information and analysis of our operations.

The following is an expanded discussion of the concept touched upon earlier in this analysis and includes this year's financial statement format and information about government-wide financial statements and fund financial statements.

Government-wide Financial Statements

The government-wide financial statements report information about the City as a whole using accounting methods similar to those used by the private sector. The statement of net assets includes all of the City's assets and liabilities. One major change that you will likely note is the inclusion of depreciation in the General Fund statement. This will no doubt raise an eyebrow as the new reporting model shows a net asset decrease of \$345,000, solely due to the inclusion of depreciation.

City of Lathrup Village, Michigan

Management's Discussion and Analysis (Continued)

The government-wide financial statements of the City are divided into three categories. These three categories will be discussed in more specificity later in this MD&A.

Governmental Activities - Most of the City's basic services are included here and are commonly referred to the "General Fund budget." Property taxes, state-shared revenues, and our "other revenues" are the primary source of funding for General Fund operations. Also included in this category are major and local streets and the Capital Acquisition Fund.

Business-type Activities - Commonly referred to as an Enterprise Fund, the activities shown under this category are related to our water and sewer budgets. These activities are funded through user fees in the form of water and sewer rates, meter charges, industrial surcharges, and capital projects fees.

Component Units - The City has one component unit, the Downtown Development Authority (the "DDA"). Although legally separate, this component unit is important because the City is financially accountable for it, including any debt, which would be issued on behalf of the DDA by the City. As presented in the financial statements, the DDA does not have any debt, and does not anticipate any debt service in the near future.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds - not the City as a whole. Funds are accounting tools that the City uses to keep track of specific sources of revenues and expenditures for particular purposes. Some funds are required by State law and bonding requirements. Other funds are established to control and manage money for particular purposes.

The City has three kinds of funds:

Governmental Funds - Most of the City's basic services are included in governmental funds, which focus on how cash and other financial assets that can be converted to cash, flow in and out and the balance left at year end that is available for spending. The governmental fund statements provide a detailed short-term view that helps the reader determine if there are more or fewer financial resources available to spend in the near future to finance the City's programs. In the annual budget, we refer to our funds as the General, Major Streets, Local Streets, Capital Acquisitions, and although a proprietary fund, the Water and Sewer Funds.

Proprietary Fund - Services that are intended to be entirely self-supporting by customer usage fees are reported as proprietary funds. As mentioned above, this would be our Water and Sewer Funds. Proprietary fund statements, such as government-wide statements, provide both short- and long-term financial information.

City of Lathrup Village, Michigan

Management's Discussion and Analysis (Continued)

Fiduciary Funds - The City is responsible for ensuring that the assets in these funds are used for their intended purposes. These activities are excluded from the government-wide financial statements because the City cannot use these assets to finance its operations. An example of this type of fund would be pension fund money.

Financial Highlights

The following represents the most significant financial highlights for the year ended June 30, 2004:

- State-shared revenues have been in the forefront of discussions over the past three fiscal years. State-shared revenues, which are the City's second largest single-source revenue, saw a reduction of \$35,579 as compared with the 2002-2003 fiscal year. This continues the three-year trend of reduced revenue sharing. With respect to the 2003-2004 fiscal year, State-shared revenues were actually \$10,094 above the original and amended budget. This is because we anticipated that State action would further reduce this category of revenue. As you know, reductions in State-shared revenues and its impact on our long-term financial plan prompted staffing reductions of four positions and other expenditure cuts over the past two fiscal years. These reductions were necessary in order to protect our financial position.
- Property tax and related revenues increased by \$30,414, or 1.38 percent, as compared to the 2002-2003 fiscal year.
- Total General Fund revenues were \$131,342 less than the prior year. This is primarily due to the conclusion of the City's sidewalk replacement program and the resulting drop in payments by affected residents. Overall General Fund revenues for the fiscal year were \$129,884 above the amended budget. This is almost entirely due to the transfer in of \$129,570 from the Budget Stabilization Fund.
- On a positive note, despite having paid for the Rummell Drain Improvements (\$214,754) in cash, the City was still able to realize a \$71,219 surplus. Again, this is entirely due to the transfer in of \$129,570, which was in a separate Budget Stabilization Fund. Had this amount not been transferred in, we would have seen a deficit of \$58,351.
- Overall General Fund expenditures were \$68,548 less than the prior year. As was previously mentioned in the revenue discussions, this reduction is attributable to the sidewalk replacement program. Expenditures for the fiscal year were \$39,105 less than the amended budget.

City of Lathrup Village, Michigan

Management's Discussion and Analysis (Continued)

- It should be noted that through the hard work of staff and the City Council, we have been able to bring our budget in on a generally positive note. This did not come easily, however. It took close to \$200,000 in expenditure cuts to avoid a deficit. Had we not transferred the Budget Stabilization Fund into the General Fund and had we not seen one-time reimbursements from SOCRA, the Workers' Compensation Fund, the Metro Authority Act, the sale of fixed assets, and higher than anticipated sidewalk payments, we surely would have run a deep deficit.

The City as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year (in thousands of dollars):

Our discussion and analysis of the City of Lathrup Village, Michigan's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the City's financial statements.

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Assets						
Current assets	\$ 3.1	\$ 2.8	\$ 0.6	\$ 0.7	\$ 3.7	\$ 3.5
Noncurrent assets	13.6	13.9	7.6	7.8	21.2	21.7
Total assets	16.7	16.7	8.2	8.5	24.9	25.2
Liabilities						
Current liabilities	0.7	0.3	0.7	0.7	1.4	1.0
Long-term liabilities	0.4	0.4	2.6	3.2	3.0	3.6
Total liabilities	1.1	0.7	3.3	3.9	4.4	4.6
Net Assets						
Invested in capital assets -						
Net of related debt	13.2	13.5	4.3	3.9	17.5	17.4
Restricted	0.7	0.7	0.4	0.6	1.1	1.3
Unrestricted	1.7	1.8	0.2	0.1	1.9	1.9
Total net assets	<u>\$ 15.6</u>	<u>\$ 16.0</u>	<u>\$ 4.9</u>	<u>\$ 4.6</u>	<u>\$ 20.5</u>	<u>\$ 20.6</u>

The City's combined net assets are \$20.5 million as compared to \$20.6 million for the prior year. This represents a .048 percent reduction. The governmental activities portion of net assets decreased \$.4 million, or .025 percent. The only area of increase is found under business activities. This area increased by \$.3 million, or 6.52 percent.

City of Lathrup Village, Michigan

Management's Discussion and Analysis (Continued)

It should be noted that overall net assets for our primary operations, governmental activities, are decreasing. If we look at the unrestricted net assets, the part of net assets that can be used to finance the day-to-day operations, we see a reduction of \$.1 million, or 5.88 percent. This negative number will need to be watched over subsequent years. This number does add credibility to the City's long-term financial plan, which also shows decreasing abilities to fund future activities.

The following table shows the major revenues and expenditures as a whole for both the governmental and business activities (in thousands of dollars). The bottom of the table shows the changes in net assets during the current year. As this is the first year of implementation for the revised reporting format, comparative data is not supplied in this report. In future reports, comparative data will be provided and an appropriate analysis will be provided.

	Governmental Activities 2004	Business-type Activities 2004	Total 2004
Revenue			
Program revenue:			
Charges for services	\$ 0.5	\$ 0.9	\$ 1.4
Operating grants and contributions	0.3	-	0.3
General revenue:			
Property taxes	2.2	0.7	2.9
State-shared revenue	0.4	-	0.4
Cell tower fees	0.1	-	0.1
Transfers and other revenue	(0.2)	0.2	-
Total revenue	3.3	1.8	5.1
Program Expenses			
General government	1.1	-	1.1
Public safety	1.5	-	1.5
Public works	1.0	-	1.0
Recreation and culture	0.1	-	0.1
Water and sewer	-	1.4	1.4
Total program expenses	3.7	1.4	5.1
Change in Net Assets	\$ (0.4)	\$ 0.4	\$ -

City of Lathrup Village, Michigan

Management's Discussion and Analysis (Continued)

Governmental Activities

As you read through the next several paragraphs, it is important to remember that governmental activities not only includes the General Fund, but also the Major and Local Streets and the Capital Acquisition Funds. The chart shown above was generated by pulling data from page 13 of the financial report. Therein you will find specific breakout data for the General, Major and Local Streets, and Capital Acquisition Funds, which is shown under the "other nonmajor governmental funds" column. This column corresponds to page 48 of the financial report. How much easier does it get than that!

The City's governmental revenues totaled \$3.3 million, with the largest revenue source being property taxes. The actual unreduced total revenue is \$3.5 million but is reduced by \$.2 million due to a transfer out, which was for the Rummell Drain project. Property taxes represent 66.6 percent of total governmental revenue. This percentage of total revenues has been relatively consistent over the past several fiscal years.

Our next largest single source revenue is state-shared revenues. These revenues total \$.4 million. As has been previously mentioned, this source of revenue continues to decline as the State of Michigan addresses its financial shortfalls. Since fiscal year 2000-2001, the City has seen this source of revenue declined by 20.39 percent.

The charges for services category, referred to as "other revenues" in our budget, is a listing of many other smaller revenue sources. Combined with the cell tower lease revenue, which is included in the other revenue category, the total for these revenues is \$.6 million. As was discussed in the budget message, the "other revenue" category is settling back into a historical pattern that predates the recent housing developments on the City's west side. This means a much lower level of revenue than we have seen in the last three fiscal years. We have seen building activity-related revenues fall correspondingly to the last new home being finished. We have also seen our interest revenue fall from a high of \$106,708 in the 2000-2001 fiscal year to a low of \$20,277 for the year ended June 30, 2004. It is highly unlikely that we will see, or be able to generate, additional non-tax revenues in the future sufficient to offset projected expenditures.

Finally, the operating grants and contributions total \$.3 million and reflect Act 51 funds for our major and local streets. Act 51 funding has been fairly stable over the past four fiscal years. We are unaware of any significant changes at the State level that will negatively affect this revenue in the near future.

City of Lathrup Village, Michigan

Management's Discussion and Analysis (Continued)

Typical of other communities in the area, a heavier reliance on property taxes will continue to pressure our tax base. The flattening of our revenues, being nearly 100 percent developed, and coupled with the limitations on property tax growth due to Proposal A and Headlee, does not fare well for our future revenue projections. With the implementation of our annual street resurfacing program, contained within our 2004-2005 budget, our residents will see a 2 mill increase in their property tax bills. Coupled with school and county taxes, the City will undoubtedly continue the dubious distinction of being among the highest-taxed communities in the state of Michigan at a total tax rate of nearly 57 mills.

Total governmental expenditures for the City totaled \$3.7 million. This exceeded revenues by \$.4 million. This number should not be confused with actual deficits. There was no actual deficit in the General Fund, primarily due to the transfer in of budget stabilization funds. The major and local streets did see small deficits (\$48 for major and \$17,673 for local). The primary reason for the majority of the negative change in net assets is due to the inclusion of depreciation. As previously mentioned, depreciation negatively affected our financial statements by \$351,442. Given this fact, future comparative data will be provided on equal footing with this financial report.

From an overall perspective, despite flattening revenues, and expenditures that are growing at a faster pace than revenues, we continue to remain in good financial standing. The budgetary reductions implemented as a part of the 2003-2004 budget mainly impacted the police department. The previous year's (FY 2002-2003) elimination of two DPS employees also put our financial house in order. Over the past two fiscal years, our total workforce has been reduced by four employees, from 25 to 21. Since we are a service provider, the majority of our expenditures is for personnel. Therefore, the only effective way to address significant budgetary shortfalls is through staffing reductions, or conversely, additional service contracting.

Business Activities

The City's business-type activity consists of the Water and Sewer Fund. We provide water as a part of the Southeastern Oakland County Water Authority (SOCWA), which in turn purchases water from the Detroit Water and Sewerage Department. Sewage treatment is provided through the Evergreen-Farmington sewage disposal system through the Oakland County Drain Commission, which is a customer of the Detroit Water and Sewerage Department.

System revenues are provided primarily through the fees paid by consumers based on actual metered water usage. Also, within this fund is the debt service millage for the retirement of bonds for the construction of Phase II Abatement projects undertaken by the City in the late 1980s.

The business-type activity expenditures totaled approximately \$1.8 million. Of this \$1.8 million, \$.9 million was from water and sewer rates, \$.7 million was from debt service millage, and \$.2 million was from a General Fund transfer for the Rummell Drain improvement. Taking expenditures into consideration totaling \$1.4 million, there was a positive net asset increase of \$.4 million.

City of Lathrup Village, Michigan

Management's Discussion and Analysis (Continued)

Capital Assets and Debt Administration

At the end of fiscal year 2003, the City has \$21.05 million invested in a wide range of capital assets, including land, buildings, equipment, roads, and water and sewer lines. This is the first time that such reporting has occurred with such specificity and is attributable to GASB 34 requirements.

Debt of \$3.54 million is related to the Segment II sewer projects of the late 1980s and the building improvements made in 1996. Debt service for the Evergreen-Farmington Phase II projects will be retired in 2010 and the building bonds will be retired in 2012. As of the end of the 2003-2004 fiscal year, the City does not anticipate the issuance of any further debt.

General Fund Budgetary Highlights

Over the course of the fiscal year, the City administration and City Council monitor and, if necessary, amend the budget to prevent expenditures in excess of budget as required by the State of Michigan Budget Act. The audited numbers included \$129,884 more revenue than the final amended budget and \$386,112 more than the original budget and \$39,105 in less expenditures than the final amended budget and \$314,893 more than the original budget. The primary reason for the large difference between the audited expenditures and the originally budgeted expenditures is related to the decision to pay cash for the mandated Rummell Drain improvements, which amounted to over \$214,000.

From a General Fund revenue perspective, the City received more revenue than anticipated through several one-time payments that were not anticipated and for which we will not likely see in the future. These included \$13,149 in Metro Act payments, \$2,751 in the sale of fixed assets (old patrol car), \$7,400 for the sale of abandoned property (the vehicle from the condemned Somerset property), \$19,950 in a refund from the Southeastern Oakland County Resource Recovery Authority, \$30,318 in workers' compensation benefits for an employee who retired, \$5,952 for an insurance reimbursement, and \$129,570 as a transfer in from our Budget Stabilization Fund. The total of these one-time revenues amounts to \$209,091. These one-time revenues are primarily responsible for our surplus of \$71,219. Had the City not received these one-time revenues, the City would have seen a \$139,872 deficit.

As was mentioned previously, audited General Fund expenditures were \$39,105 under the amended budget and \$314,893 more than the original budget. As was also mentioned previously, the primary reason for the increase over the original budget centered on the decision to pay for the Rummell Drain improvements with cash from the General Fund. The remaining difference of \$100,139 was primarily attributable to benefits and overtime in the police department and modest increases in other line items throughout the budget.

City of Lathrup Village, Michigan

Management's Discussion and Analysis (Continued)

It has been the City's history of monitoring the revenue and expenditure reports on a monthly basis to track the unfolding of each fiscal year. Expenditures have been allowed to grow provided that the revenues are available to support them. This approach has benefited the City from many different perspectives. It has allowed us to rebuild our financial position, pay for one-time large scale projects with cash, and provided the opportunity for the retooling of our operations.

Economic Factors and the Future

There are several economic factors that will continue to challenge the City. These include State revenue sharing, health insurance, pension costs, our overall millage rate, and state laws limiting the growth in property taxes. The 1978 Headlee Amendment and Proposal A passed in 1993 both limit growth to the rate of inflation. Headlee requires a rollback in the overall millage rate if total property values grow at a rate higher than inflation and Proposal A limits increases in individual property tax assessments to the rate of inflation.

Because we are a service provider, the majority of our costs are personnel related. As these costs increase, in part as a result of our Police Unions proceeding to Act 312 Arbitration, health care cost increases, and general cost increases in our numerous service contracts, we continue to rely on our tax base to maintain services. Unfortunately, when service contracts increase by 3 percent, Act 312 Arbitrators allow police wages to increase by 3 percent, and with health care premiums increasing by double digit figures, our revenue growth will not be able to keep pace. As a highly taxed community, the question will be how much more burden can we place on the taxpayer before we become undesirable as a place to locate? We were fortunate in receiving 4.75 new mills from our voters in 2003. Two of these mills were immediately put into an annual street resurfacing program. The remaining mills have been held in reserve to fund future cost increases. However, with our long-term plan showing deficits beginning with the 2005-2006 fiscal year, it will remain a struggle to provide existing services and hold the line on our tax rate.

Other factors that may/will affect our future finances include the final fate of State-shared revenues, the Michigan Department of Environmental Quality's decisions relative to our sanitary sewer system, the future of storm water management, and infrastructure investments.

Contacting the City's Financial Management

This financial report is intended to provide citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, please contact the City's Treasurer at 248.557.2600 ext. 227.

City of Lathrup Village, Michigan

Statement of Net Assets June 30, 2004

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments (Note 3)	\$ 2,510,086	\$ 642,125	\$ 3,152,211	\$ 161,410
Receivables:				
Customers	-	305,245	305,245	-
Due from other governmental units	227,263	-	227,263	-
Due from primary government	-	-	-	100,881
Internal balances	360,080	(360,080)	-	-
Inventories	-	1,985	1,985	-
Prepaid expenses and other assets	57,867	-	57,867	-
Bond issuance costs - Net of \$112,000 accumulated amortization (Note 1)	-	168,000	168,000	-
Capital assets - Net (Note 4):				
Nondepreciable capital assets	12,647,454	-	12,647,454	-
Depreciable capital assets - Net	912,851	7,486,764	8,399,615	-
Total assets	16,715,601	8,244,039	24,959,640	262,291
Liabilities				
Accounts payable	314,039	90,459	404,498	-
Accrued and other liabilities	158,340	29,482	187,822	-
Due to component unit	100,881	-	100,881	-
Noncurrent liabilities (Note 6):				
Due within one year	130,000	571,023	701,023	-
Due in more than one year	373,534	2,612,815	2,986,349	-
Total liabilities	1,076,794	3,303,779	4,380,573	-
Net Assets				
Invested in capital assets - Net of related debt	13,250,305	4,302,926	17,553,231	-
Restricted:				
Property tax refuse levy	10,309	-	10,309	-
Construction code activity	42,913	-	42,913	-
Streets and highways	675,863	-	675,863	-
Water and Sewer - Restricted for debt payments	-	408,872	408,872	-
Unrestricted	1,659,417	228,462	1,887,879	262,291
Total net assets	\$ 15,638,807	\$ 4,940,260	\$ 20,579,067	\$ 262,291

City of Lathrup Village, Michigan

Statement of Activities Year Ended June 30, 2004

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Component Unit
					Governmental Activities	Business-type Activities	
Primary government:							
Governmental activities:							
General government	\$ 1,122,657	\$ 307,943	\$ 17,016	\$ -	\$ (797,698)	\$ -	\$ (797,698)
Public safety	1,530,161	47,641	-	-	(1,482,520)	-	(1,482,520)
Public works	984,158	116,490	301,452	-	(566,216)	-	(566,216)
Recreation and culture	91,662	34,909	-	-	(56,753)	-	(56,753)
Interest on long-term debt	17,837	-	-	-	(17,837)	-	(17,837)
Total governmental activities	3,746,475	506,983	318,468	-	(2,921,024)	-	(2,921,024)
Business-type activities - Water and sewer	1,394,903	874,158	-	-	-	(520,745)	(520,745)
Total primary government	<u>\$ 5,141,378</u>	<u>\$ 1,381,141</u>	<u>\$ 318,468</u>	<u>\$ -</u>	(2,921,024)	(520,745)	(3,441,769)
Component unit - Downtown Development Authority	<u>\$ 41,958</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	-	-	-
General revenues:							
Property taxes					2,233,247	670,795	2,904,042
State-shared revenues					404,917	-	404,917
Unrestricted investment earnings					24,739	1,882	26,621
Cell tower fees					73,877	-	73,877
Gain on sale of assets					8,963	-	8,963
Miscellaneous					9,043	-	9,043
Transfers					(178,253)	178,253	-
Total general revenues and transfers					2,576,533	850,930	3,427,463
Change in Net Assets					(344,491)	330,185	(14,306)
Net Assets - Beginning of year					15,983,298	4,610,075	20,593,373
Net Assets - End of year					<u>\$ 15,638,807</u>	<u>\$ 4,940,260</u>	<u>\$ 20,579,067</u>
							<u>\$ 262,291</u>

City of Lathrup Village, Michigan

Governmental Funds Balance Sheet June 30, 2004

	Major Special Revenue Funds			Other Nonmajor Governmental Funds	Total Governmental Funds
	General Fund	Major Streets Fund	Local Streets Fund		
Assets					
Cash and investments	\$ 1,104,138	\$ 1,105,355	\$ -	\$ 300,593	\$ 2,510,086
Due from other governmental units	86,772	35,489	30,845	-	153,106
Prepaid expenses and other assets	57,867	-	-	-	57,867
Due from other funds (Note 5)	588,585	1,113	551,710	307,059	1,448,467
Total assets	<u>\$ 1,837,362</u>	<u>\$ 1,141,957</u>	<u>\$ 582,555</u>	<u>\$ 607,652</u>	<u>\$ 4,169,526</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 38,655	\$ 1,710	\$ 273,674	\$ -	\$ 314,039
Accrued and other liabilities	154,084	-	-	-	154,084
Due to other funds (Note 5)	226,853	624,091	135,051	102,392	1,088,387
Due to component units	100,881	-	-	-	100,881
Deferred revenue	-	-	14,123	-	14,123
Total liabilities	520,473	625,801	422,848	102,392	1,671,514
Fund Balances					
Reserved for:					
Property tax refuse levy	10,309	-	-	-	10,309
Construction code activity	42,913	-	-	-	42,913
Unreserved - Designated for road construction	579,662	-	-	-	579,662
Unreserved, reported in:					
General Fund	684,005	-	-	-	684,005
Special Revenue Funds	-	516,156	159,707	-	675,863
Capital Projects Funds	-	-	-	505,260	505,260
Total fund balances	<u>1,316,889</u>	<u>516,156</u>	<u>159,707</u>	<u>505,260</u>	<u>2,498,012</u>
Total liabilities and fund balances	<u>\$ 1,837,362</u>	<u>\$ 1,141,957</u>	<u>\$ 582,555</u>	<u>\$ 607,652</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	13,560,305
State-shared revenue receivable to be collected next fiscal year, relating to State's sales tax year	74,157
Certain revenues were deferred and are expected to be collected over several years, and are not available to pay for current year expenditures	14,123
Accrued interest payable on long-term debt is not due and payable in the current period and is not reported in the funds	(4,256)
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(361,000)
Compensated absences are not due and payable in the current period and are not reported in the funds	(142,534)
Net assets of governmental activities	<u>\$ 15,638,807</u>

City of Lathrup Village, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2004

	Major Special Revenue Funds			Other Nonmajor	Total
	General	Major Streets	Local Streets	Governmental	Governmental
	Fund	Fund	Fund	Funds	Funds
Revenue					
Property taxes	\$ 2,233,247	\$ -	\$ -	\$ -	\$ 2,233,247
Licenses and permits	139,968	-	-	-	139,968
Federal grants	10,795	-	-	-	10,795
State-shared revenues and grants	418,418	209,025	98,391	-	725,834
Fines and forfeitures	38,006	-	-	-	38,006
Interest and rentals	93,686	10,697	2,252	2,116	108,751
Other	308,430	-	7,062	-	315,492
Total revenue	3,242,550	219,722	107,705	2,116	3,572,093
Expenditures					
General government	1,057,385	-	-	34,650	1,092,035
Public safety	1,512,197	-	-	-	1,512,197
Public works	369,302	168,731	155,944	-	693,977
Recreation and culture	135,164	-	-	-	135,164
Total expenditures	3,074,048	168,731	155,944	34,650	3,433,373
Excess of Revenue Over (Under) Expenditures	168,502	50,991	(48,239)	(32,534)	138,720
Other Financing Sources (Uses)					
Transfers in (Note 5)	129,570	-	38,394	69,073	237,037
Transfers out (Note 5)	(226,853)	(51,039)	(7,828)	(129,570)	(415,290)
Total other financing sources (uses)	(97,283)	(51,039)	30,566	(60,497)	(178,253)
Net Change in Fund Balances	71,219	(48)	(17,673)	(93,031)	(39,533)
Fund Balances - Beginning of year	1,245,670	516,204	177,380	598,291	2,537,545
Fund Balances - End of year	<u>\$ 1,316,889</u>	<u>\$ 516,156</u>	<u>\$ 159,707</u>	<u>\$ 505,260</u>	<u>\$ 2,498,012</u>

City of Lathrup Village, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds \$ (39,533)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are recorded as capital assets	34,650
Governmental funds allocate the cost of capital assets over their estimated useful lives as depreciation	(351,442)
Proceeds from the sale of capital assets reported as revenue in the governmental funds; the statement of activities records a gain or loss, included in general government expense	(1,188)
Certain revenues reported in the statement of activities in previous years did not provide current financial resources in the governmental funds until the current year	(11,141)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	25,000
Long-term liabilities and accrued interest are not due and payable in the current period and are not reported in the fund	313
Increase in accumulated employee sick and vacation pay is recorded when earned in the statement of activities	<u>(1,150)</u>

Change in Net Assets of Governmental Activities **\$ (344,491)**

City of Lathrup Village, Michigan

Proprietary Funds Statement of Net Assets June 30, 2004

	Enterprise Fund - Water and Sewer Fund
Assets	
Current assets:	
Cash and investments	\$ 642,125
Receivables - Net	305,245
Due from other funds (Note 5)	216,754
Inventories	1,985
Bond issuance costs - Net of \$112,000 accumulated amortization (Note 1)	168,000
Total current assets	1,334,109
Noncurrent assets - Depreciable capital assets	7,486,764
Total assets	8,820,873
Liabilities	
Current liabilities:	
Accounts payable	90,459
Accrued and other liabilities	29,482
Due to other funds (Note 5)	576,834
Current portion of long-term debt	571,023
Total current liabilities	1,267,798
Noncurrent liabilities - Long-term debt - Net of current portion	2,612,815
Total liabilities	3,880,613
Net Assets	
Invested in capital assets - Net of related debt	4,302,926
Restricted for debt payments	408,872
Unrestricted	228,462
Total net assets	<u><u>\$ 4,940,260</u></u>

City of Lathrup Village, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2004

	Enterprise Fund - Water and Sewer Fund
Operating Revenue	
Sale of water	\$ 372,552
Sewage disposal charges	405,673
Meter charge revenue	37,643
Penalties	<u>29,507</u>
Total operating revenue	845,375
Operating Expenses	
Cost of water	209,892
Cost of sewage disposal	304,485
Operation and maintenance	450,063
General and administrative	54,721
Depreciation and amortization	<u>241,325</u>
Total operating expenses	<u>1,260,486</u>
Operating Loss	(415,111)
Nonoperating Revenue (Expense)	
Property taxes	670,795
Interest income and other	30,665
Interest expense	<u>(134,417)</u>
Total nonoperating revenue	<u>567,043</u>
Income - Before operating transfers	151,932
Operating Transfers In	214,754
Operating Transfers Out	<u>(36,501)</u>
Change in Net Assets	330,185
Net Assets - Beginning of year	<u>4,610,075</u>
Net Assets - End of year	<u><u>\$ 4,940,260</u></u>

City of Lathrup Village, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2004

	Enterprise Fund - Water and Sewer Fund
Cash Flows from Operating Activities	
Receipts from customers	\$ 829,032
Payments to suppliers	(926,055)
Payments to employees	(101,966)
Other receipts	273,787
Net cash provided by operating activities	74,798
Cash Flows from Noncapital Financing Activities - Operating transfers from other funds	195,779
Cash Flows from Capital and Related Financing Activities	
Proceeds from property tax levy	670,795
Purchase of capital assets	(121,354)
Principal and interest paid on capital debt	(609,566)
Net cash used in capital and related financing activities	(60,125)
Cash Flows from Investing Activities	
Interest earnings	30,665
Purchase of investment securities	(251,621)
Net cash used in investing activities	(220,956)
Net Decrease in Cash and Cash Equivalents	(10,504)
Cash and Cash Equivalents - Beginning of year	179,691
Cash and Cash Equivalents - End of year	\$ 169,187
Balance Sheet Classification of Cash and Cash Equivalents	
Cash and investments	\$ 642,125
Less amounts classified as investments (Note 3)	(472,938)
Total cash and cash equivalents	\$ 169,187
Reconciliation of Operating Income to Net Cash from Operating Activities	
Operating loss	\$ (415,111)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation and amortization	241,325
Changes in assets and liabilities:	
Receivables	(16,343)
Due from/to other funds	273,786
Accounts payable	(8,859)
Net cash provided by operating activities	\$ 74,798

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2004, there were no noncash investing, capital, or financing activities.

City of Lathrup Village, Michigan

Component Unit Statement of Activities Year Ended June 30, 2004

					Net (Expense) Revenue and Changes in Net Assets
		Program Revenues			
		Operating	Capital Grants		
		Grants and	and		
		Contributions	Contributions		
	Expenses	Charges for Services			DDA
Downtown Development Authority -					
General government	<u>\$ 41,958</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	\$ 41,958
General Revenues					
	Property taxes				142,838
	Unrestricted investment earnings				<u>1,136</u>
	Total general revenues				<u>143,974</u>
	Change in Net Assets				102,016
	Net Assets - Beginning of year				<u>160,275</u>
	Net Assets - End of year				<u>\$ 262,291</u>

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Lathrup Village, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Lathrup Village, Michigan:

Reporting Entity

The City of Lathrup Village, Michigan is governed by an elected five-member Council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

Blended Component Unit - The Lathrup Village Building Authority is governed by a commission that is appointed by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the City's public buildings.

Discretely Presented Component Unit - The Downtown Development Authority (DDA) is reported within the component unit column in the combined financial statements. It is reported in a separate column to emphasize that it is legally separate from the City. The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The DDA's governing body, consisting of eight individuals, is selected by the mayor with City Council approval. In addition, the DDA's budget is subject to approval by the City.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

Note 1 - Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and proprietary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: State-shared revenue, State gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Note 1 - Summary of Significant Accounting Policies (Continued)

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The City reports the following major governmental funds:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. General Fund activities are financed by revenue from general property taxes, State-shared revenue, and other sources.

Major Streets Fund - The Major Streets Fund accounts for maintenance and improvement activities for streets designated as "major" within the City. Funding is provided through State-shared gas and weight taxes.

Local Streets Fund - The Local Streets Fund accounts for maintenance and improvement activities for streets designated as "local" within the City. Funding is provided primarily through State-shared gas and weight taxes.

The City reports the following major proprietary fund:

Enterprise Fund - Water and Sewer Fund - The Water and Sewer Fund is used to account for the results of operations that provide water and sewer services to citizens that are financed primarily by a user charge for the provision of those services.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Note 1 - Summary of Significant Accounting Policies (Continued)

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue

Properties are assessed as of December 31. The related property taxes are billed and become a lien on the following July 1 and are due on August 31 with the final collection date of February 28 before they are added to the county tax rolls.

The City's 2003 tax is levied and collectible on July 1, 2003 and is recognized as revenue in the year ended June 30, 2004, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2003 taxable valuation of the City totaled \$162 million (a portion of which is abated and a portion of which is captured by the DDA), on which taxes levied consisted of 5.5618 mills for operating purposes, 1.6292 mills for refuse services, 5.1742 mills for public safety services, .9581 mills for library services, and 4.1482 mills for drains. This resulted in approximately \$867,000 for operating, approximately \$255,000 for refuse services, approximately \$808,000 for public safety services, approximately \$150,000 for library services, and approximately \$671,000 for drains. These amounts are recognized in the respective General and Water and Sewer Funds financial statements as tax revenue.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Note 1 - Summary of Significant Accounting Policies (Continued)

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Inventories and Prepaid Items - Inventories in the Enterprise Fund are valued at cost, on a first-in, first-out basis. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Bond Issuance Costs - The City has capitalized costs associated with the issuance of long-term debt of the Enterprise Fund. These costs are being amortized over the life of the bonds using the effective interest rate method.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and building improvements	80 years
Infrastructure	10 to 50 years
Machinery, equipment, and vehicles	1 to 25 years
Utility system	50 years

Compensated Absences (Vacation and Sick Leave) - The City does not permit employees to accumulate earned but unused vacation pay benefits. There is a liability for unpaid accumulated sick leave since the City has a policy to pay out 50 percent of accumulated sick time when employees separate from service with the City. All vacation and sick pay is accrued when incurred in the government-wide and proprietary financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Note 1 - Summary of Significant Accounting Policies (Continued)

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

City of Lathrup Village, Michigan

Notes to Financial Statements June 30, 2004

Note 2 - Stewardship, Compliance, and Accountability

Construction Code Fees - The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus generated since January 1, 2000 is as follows:

Cumulative surplus at July 1, 2003		\$	64,112
Current year building permit revenue			35,275
Related expenses:			
Direct costs	\$	27,883	
Estimated indirect costs		<u>28,591</u>	<u>56,474</u>
Current year shortfall			<u>(21,199)</u>
Cumulative surplus at June 30, 2004		\$	<u><u>42,913</u></u>

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest surplus monies in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The City has designated two particular banks for the deposit of its funds. The investment policy adopted by the City Council in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts, commercial paper, and CDs, but not the remainder of State statutory authority as listed above.

The City of Lathrup Village, Michigan's deposits and investment policies are in accordance with statutory authority.

City of Lathrup Village, Michigan

Notes to Financial Statements June 30, 2004

Note 3 - Deposits and Investments (Continued)

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Total Primary Government	Component Units
Cash and cash equivalents	\$ 773,182	\$ 169,187	\$ 942,369	\$ -
Investments	<u>1,736,904</u>	<u>472,938</u>	<u>2,209,842</u>	<u>161,410</u>
Total	<u>\$ 2,510,086</u>	<u>\$ 642,125</u>	<u>\$ 3,152,211</u>	<u>\$ 161,410</u>

The breakdown between deposits and investments for the City is as follows:

	Primary Government	Component Units
Bank deposits (checking accounts and savings accounts)	\$ 941,869	\$ -
Investments	2,209,842	161,410
Petty cash or cash on hand	<u>500</u>	<u>-</u>
Total	<u>\$ 3,152,211</u>	<u>\$ 161,410</u>

Deposits

The bank balance of the City's deposits is \$968,382, of which \$200,000 is covered by federal depository insurance and the remainder was uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

City of Lathrup Village, Michigan

Notes to Financial Statements June 30, 2004

Note 3 - Deposits and Investments (Continued)

Investments

The City's investments at June 30, 2004 consisted of bank investment pools of \$1,677,319 and interlocal agreement investment pools of \$532,523. These investments are not categorized because they are not evidenced by securities that exist in physical or book entry form. The bank investment pools are regulated by the Michigan Banking Act. The investments under the interlocal agreement pools are regulated by the Urban Cooperation Act. The fair value of the position in the bank investment pools and the interlocal agreement investment pools is the same as the value of the pooled shares. Management believes that the investments in these funds comply with the investment authority noted above.

The cash and investments of the City's component unit consist of bank investment pools of \$161,410.

Note 4 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 244,734	\$ -	\$ -	\$ 244,734
Right-of-ways	12,402,720	-	-	12,402,720
Subtotal	12,647,454	-	-	12,647,454
Capital assets being depreciated:				
Infrastructure	5,057,143	-	-	5,057,143
Buildings	556,300	-	-	556,300
Machinery, equipment, and vehicles	1,020,184	34,650	(46,947)	1,007,887
Subtotal	6,633,627	34,650	(46,947)	6,621,330
Accumulated depreciation:				
Infrastructure	4,551,429	10,918	-	4,562,347
Buildings	214,518	87,667	(45,760)	256,425
Machinery, equipment, and vehicles	636,850	252,857	-	889,707
Subtotal	5,402,797	351,442	(45,760)	5,708,479
Net capital assets being depreciated	1,230,830	(316,792)	(1,187)	912,851
Net governmental activities capital assets	\$ 13,878,284	\$ (316,792)	\$ (1,187)	\$ 13,560,305

City of Lathrup Village, Michigan

Notes to Financial Statements June 30, 2004

Note 4 - Capital Assets (Continued)

Business-type Activities	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Capital assets being depreciated:				
Utility system	\$ 10,452,306	\$ 121,354	\$ -	\$ 10,573,660
Machinery and equipment	122,226	-	-	122,226
Vehicles	30,166	-	-	30,166
Subtotal	10,604,698	121,354	-	10,726,052
Accumulated depreciation:				
Utility system	2,884,666	211,177	-	3,095,843
Machinery and equipment	111,131	2,148	-	113,279
Vehicles	30,166	-	-	30,166
Subtotal	3,025,963	213,325	-	3,239,288
Net business-type capital assets	<u>\$ 7,578,735</u>	<u>\$ (91,971)</u>	<u>\$ -</u>	<u>\$ 7,486,764</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 47,807
Public safety	17,470
Public works	273,880
Recreation and culture	12,285

Total governmental activities \$ 351,442

Business-type activities - Water and sewer \$ 213,325

Construction Commitments - The City has one construction project that has been approved at year end. The project relates to the street resurfacing project in which engineering work has begun, but the construction started in fiscal year 2005. At year end, the City's commitments with contractors are as follows:

	Spent to Date	Remaining Commitment
2004 street resurfacing project	<u>\$ -</u>	<u>\$ 397,200</u>

City of Lathrup Village, Michigan

Notes to Financial Statements June 30, 2004

Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		
General Fund	Water and Sewer Fund	\$ 486,193
	Nonmajor governmental funds	<u>102,392</u>
	Total General Fund	588,585
Major Streets Fund	Water and Sewer Fund	1,113
Local Streets Fund	Major Streets Fund	551,710
Nonmajor governmental funds	General Fund	12,099
	Major Streets Fund	72,381
	Local Streets Fund	133,051
	Water and Sewer Fund	<u>89,528</u>
	Total nonmajor governmental funds	307,059
Water and Sewer Fund	General Fund	214,754
	Local Streets Fund	<u>2,000</u>
	Total Water and Sewer Fund	<u>216,754</u>
Total		<u>\$ 1,665,221</u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

City of Lathrup Village, Michigan

Notes to Financial Statements June 30, 2004

Note 5 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund transfers reported in the fund financial statements are comprised of the following:

<u>Fund Providing Resources</u>	<u>Fund Receiving Resources</u>	<u>Amount</u>
General Fund	Water and Sewer Fund	\$ 214,754
	Nonmajor governmental funds	<u>12,099</u>
	Total Water and Sewer Fund	226,853
Major Streets Fund	Local Streets Fund	38,394
	Nonmajor governmental funds	<u>12,645</u>
	Total Major Streets Fund	51,039
Local Streets Fund	Nonmajor governmental funds	7,828
Nonmajor governmental funds	General Fund	129,570
Water and Sewer Fund	Capital Acquisition Fund	<u>36,501</u>
	Total	<u>\$ 451,791</u>

The transfers from the General Fund to the Water and Sewer Fund and nonmajor governmental funds represent the use of unrestricted resources to finance those programs, in accordance with budgetary authorizations; the transfer from the Major Streets Fund to the Local Streets Fund represents the sharing of gas and weight tax revenues, in accordance with Act 51; the transfer from the nonmajor governmental funds to the General Fund, Local Streets Fund, and Water and Sewer Fund represents the repayment of interfund balances and the movement of unrestricted money to close out the fund. The transfer from the Water and Sewer Fund to the Capital Acquisition Fund represents the City setting aside money for the future purchase of water and sewer capital assets.

City of Lathrup Village, Michigan

Notes to Financial Statements June 30, 2004

Note 6 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government.

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Governmental Activities					
General obligation bonds:					
Building Authority Bond					
Amount of issue: \$450,000	5.00% -				
Maturing through 2012	5.80%	\$ 335,000	\$ (25,000)	\$ 310,000	\$ 30,000
Other long-term obligations:					
Estimated personal property tax multiplier liability (Note 11)		51,000	-	51,000	-
Accumulated employee benefit		141,384	1,150	142,534	100,000
Total governmental activities		<u>\$ 527,384</u>	<u>\$ (23,850)</u>	<u>\$ 503,534</u>	<u>\$ 130,000</u>
Business-type Activities					
County contract obligation					
Amount of issue: \$6,075,000	3.65% -				
Maturing through 2010	4.10%	\$ 3,615,000	\$ (470,000)	\$ 3,145,000	\$ 565,000
County contract obligation					
Amount of issue: \$54,091					
Maturing through 2010	1.943%	43,987	(5,149)	38,838	6,023
Total business-type activities		<u>\$ 3,658,987</u>	<u>\$ (475,149)</u>	<u>\$ 3,183,838</u>	<u>\$ 571,023</u>

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 30,000	\$ 16,260	\$ 46,260	\$ 571,023	\$ 115,076	\$ 686,099
2006	30,000	14,715	44,715	560,829	93,595	654,424
2007	35,000	13,008	48,008	550,635	71,729	622,364
2008	35,000	11,135	46,135	541,509	50,255	591,764
2009	40,000	9,090	49,090	627,286	26,591	653,877
2010-2012	140,000	12,645	152,645	332,556	6,927	339,483
Total	<u>\$ 310,000</u>	<u>\$ 76,853</u>	<u>\$ 386,853</u>	<u>\$ 3,183,838</u>	<u>\$ 364,173</u>	<u>\$ 3,548,011</u>

Note 7 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefits provided to employees and participates in the Michigan Municipal League (MML) risk pool for claims relating to property loss, torts, errors and omissions, and employee injuries. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 8 - Defined Benefit Pension Plan

Plan Description - The City participates in the Michigan Municipal Employees' Retirement System (the "System"), an agent multiple-employer defined benefit pension plan that covers all employees of the City. The System provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy - The obligation to contribute to and maintain the System for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of 3 percent of the first \$4,200 of gross wages and 5 percent thereafter for nonunion employees and police and 6 percent of gross wages for employees covered under the Municipal Association of Public Employees contract.

City of Lathrup Village, Michigan

Notes to Financial Statements June 30, 2004

Note 8 - Defined Benefit Pension Plan (Continued)

Annual Pension Cost - For the year ended June 30, 2004, the City's annual pension cost of \$49,777 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2001, using the entry actual age cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent to 8.66 percent per year depending on age, attributable to seniority/merit, and (c) the assumption that benefits will increase 2.5 percent per year annually after retirement. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. Unfunded actuarial liability is amortized over a period of 30 years.

	Fiscal Year Ended June 30		
	2004	2003	2002
Annual pension costs (APC)	\$ 49,777	\$ 58,650	\$ 23,820
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -
	Actuarial Valuation as of December 31		
	2003	2002	2001
Actuarial value of asset	\$ 4,600,319	\$ 4,364,162	\$ 4,321,111
Actuarial accrued liability (AAL)			
(entry age)	\$ 4,901,871	\$ 4,488,055	\$ 4,361,997
Underfunded AAL	\$ (301,552)	\$ (123,893)	\$ (40,886)
Funded ratio	93.85%	97.24%	99.06%
Covered payroll	\$ 1,160,855	\$ 1,231,363	\$ 1,202,394

Note 9 - Other Postemployment Benefits

The City provides health care to all full-time employees upon retirement, in accordance with labor contracts. Currently, 13 retirees are eligible. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with a contribution required by the participant's dependents. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health care benefits are recognized as the insurance premiums become due; this totaled approximately \$84,000. These benefits are paid annually from the General Fund.

Note 9 - Other Postemployment Benefits (Continued)

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

Note 10 - Joint Venture

The City is a member of Southeastern Oakland County Resource Recovery Authority (the “Authority”), which consists of 12 municipalities in Oakland County. The Authority provides refuse disposal services for the benefit of member municipalities. The City appoints one member to the joint venture’s governing board, which approves the annual budget. The participating communities provide annual funding for its operations. During the current year, the City expensed approximately \$88,000 related to payments to the Authority. The City is unaware of any circumstances that would cause any significant additional financial benefit or burden to the participating governments in the near future. Complete financial statements for the Authority can be obtained from the administrative offices at 3910 Webster, Royal Oak, MI 48073.

The City is a member of Southeastern Oakland County Water Authority (the “Water Authority”), which consists of 11 municipalities in Oakland County. The City purchases water from the Water Authority. The City appoints one member to the joint venture’s governing board, which approves the annual budget. The participating communities provide annual funding for its operations. During the current year, the City expensed approximately \$210,000 related to payments to the Water Authority. The City is unaware of any circumstances that would cause any significant additional financial benefit or burden to the participating governments in the near future. Complete financial statements for the Water Authority can be obtained from the administrative offices at 3910 Webster, Royal Oak, MI 48073.

Note 11 - Personal Property Tax Multipliers

In November 1999, the State Tax Commission approved revised personal property tax tables for utilities. The revised tables could affect taxes collected from 1997 to present due to local units of government continuing to use the personal property tax tables in effect prior to 1999. The issue was the subject of a lawsuit brought by several units of government against the State Tax Commission, challenging the constitutionality of the new utility personal property tax tables. In April 2002, the revised tables were upheld by the court.

During 2003, the tax tables were again upheld on appeal. The amounts paid to the City in excess of the approved amounts using the new tables would potentially need to be refunded to the utility companies. This could result in refunds, including interest, of approximately \$51,000 in the governmental funds. Appeals are still being undertaken by taxing authorities. Therefore, the potential refund related to the governmental funds has been recorded as a long-term liability on the government-wide statement of net assets at June 30, 2004.

Note 12 - Accounting and Reporting Change

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The City of Lathrup Village, Michigan has applied the provisions of this statement in the accompanying financial statements (including the notes to the financial statements). The City has elected to implement both the general provisions of the statement and the retroactive reporting of the infrastructure in the current year. Certain significant changes in the statement include the following:

- A management's discussion and analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations
- Financial statements prepared using full accrual accounting for all of the City's activities, including infrastructure (roads, bridges, etc.)
- A change in the fund financial statements to focus on the major funds
- Capital assets in the governmental activities column of the statement of net assets includes infrastructure assets (roads, bridges, etc.) not previously accounted for by the City. Capital assets at July 1, 2003, previously reported in the General Fixed Assets Account Group, have been adjusted by approximately \$1,086,000 to reflect the historical cost of the City's capital assets at that date.
- The governmental activities column includes bonds and other long-term obligations totaling \$527,000 previously reported in the General Long-term Debt Account Group.

Required Supplemental Information

City of Lathrup Village, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Revenue				
Property Taxes				
City taxes	\$ 902,663	\$ 902,663	\$ 866,784	\$ (35,879)
Refuse collection taxes	264,414	264,414	254,542	(9,872)
Public safety millage	839,757	839,757	808,402	(31,355)
Library taxes	155,497	155,497	149,691	(5,806)
Tax penalties	13,200	17,500	64,809	47,309
Tax administration fee	51,500	83,000	89,019	6,019
Total property taxes	2,227,031	2,262,831	2,233,247	(29,584)
Licenses and Permits				
Building permits	21,461	21,461	18,072	(3,389)
Electrical, heating, and plumbing	13,100	17,550	17,203	(347)
Cable television franchise fee	60,049	70,000	74,784	4,784
Other	8,800	29,900	29,909	9
Total licenses and permits	103,410	138,911	139,968	1,057
Federal Sources - Community Development				
Block Grant	6,500	3,000	10,795	7,795
State Sources				
State-shared revenue	400,000	400,000	410,094	10,094
State grants	5,211	7,346	8,324	978
Total State sources	405,211	407,346	418,418	11,072

City of Lathrup Village, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Revenue (Continued)				
Fines and Forfeitures - District Court	\$ 23,000	\$ 40,000	\$ 38,006	\$ (1,994)
Interest and Rent				
Interest	40,200	20,000	9,674	(10,326)
Rent	32,917	82,917	84,012	1,095
Total interest and rent	73,117	102,917	93,686	(9,231)
Other Revenue				
Recreation special programs	25,000	34,500	34,909	409
Insurance - Retirees' spouses	13,000	25,000	26,165	1,165
Police activity reimbursement	3,500	8,800	9,635	835
Sidewalk	5,000	78,000	79,859	1,859
Cell tower	75,000	75,800	73,877	(1,923)
Gain on sale of assets	-	7,400	10,151	2,751
Other	26,239	57,731	73,834	16,103
Operating transfers in	-	-	129,570	129,570
Total other revenue	147,739	287,231	438,000	150,769
Total revenue	2,986,008	3,242,236	3,372,120	129,884

City of Lathrup Village, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Expenditures				
Government Services				
Property and liability insurance	\$ 53,000	\$ 57,481	\$ 57,481	\$ -
Unemployment insurance	2,876	2,876	1,710	1,166
Workers' compensation insurance	1,220	1,601	1,601	-
Office supplies	7,670	5,600	4,369	1,231
Tax tribunal	2,000	1,000	46	954
Building trade inspection	18,000	17,000	18,775	(1,775)
Cable television	40,000	45,000	42,696	2,304
Auditing and accounting	12,000	12,000	11,595	405
Government operations	31,000	35,000	41,280	(6,280)
Telephone	11,000	11,000	10,211	789
Vehicle	2,100	1,000	278	722
Community development	9,800	10,100	11,221	(1,121)
City planning	8,500	25	25	-
City beautification	2,500	2,000	1,132	868
Printing and postage	22,600	17,300	18,827	(1,527)
Library payment	155,497	151,366	151,366	-
Miscellaneous	21,905	29,705	30,236	(531)
Total government services	401,668	400,054	402,849	(2,795)
Public Safety				
Salaries - Full-time	535,183	538,651	535,999	2,652
Employee taxes and benefits	227,940	244,318	243,042	1,276
Overtime salaries	53,000	87,000	91,667	(4,667)
Insurance:				
Property and liability	16,548	16,548	16,548	-
Unemployment insurance	13,400	9,481	9,481	-
Workers' compensation	13,000	26,269	26,269	-

City of Lathrup Village, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Expenditures (Continued)				
Public Safety (Continued)				
Office supplies	\$ 6,450	\$ 6,450	\$ 6,307	\$ 143
Memberships and meetings	2,200	2,200	2,026	174
Police reserves	1,500	4,000	5,173	(1,173)
Civil defense and training	5,011	2,600	3,030	(430)
Firearms training	4,000	3,000	2,545	455
Crime prevention	4,200	3,600	2,452	1,148
Animal control	4,800	7,500	7,532	(32)
MJTC Grant	3,700	3,700	2,375	1,325
Fire service contract	497,857	500,408	500,408	-
Police uniforms and cleaning	12,500	11,000	8,408	2,592
Telephone	13,200	13,200	10,930	2,270
Radio communication	13,500	10,000	7,908	2,092
Equipment maintenance	6,500	2,500	1,641	859
Vehicle	22,500	23,500	24,600	(1,100)
Miscellaneous expenditures	3,000	3,645	3,856	(211)
Total public safety	1,459,989	1,519,570	1,512,197	7,373
Department of Public Services				
Salaries:				
Full-time	41,909	47,140	46,685	455
Part-time	8,000	10,382	10,382	-
Employee taxes and benefits	21,807	30,608	27,451	3,157
Office supplies	1,000	600	203	397
Equipment maintenance	25,000	30,000	31,395	(1,395)
Park maintenance	2,500	2,500	2,069	431
Sidewalk maintenance	4,000	10,138	9,870	268
Leaf collection	23,299	22,395	10,296	12,099
SOCRRA	103,327	103,327	94,698	8,629
Laidlaw contract	127,800	139,543	136,253	3,290
Total Department of Public Services	358,642	396,633	369,302	27,331

City of Lathrup Village, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Expenditures (Continued)				
Administration				
Salaries:				
Full-time	\$ 249,922	\$ 254,500	\$ 250,201	\$ 4,299
Part-time	-	-	-	-
Employee taxes and benefits	128,377	116,500	108,812	7,688
Code enforcement:				
Legal	6,514	9,000	9,083	(83)
Elections	6,500	5,500	4,122	1,378
Data processing and assessments	34,500	36,000	35,355	645
Legal services	42,745	53,500	60,943	(7,443)
Board of Review	600	600	522	78
Total administration	469,158	475,600	469,038	6,562
Recreation, Cultural, and Other				
Part-time salaries	17,900	17,900	19,650	(1,750)
Fringe benefits	1,957	2,118	1,905	213
Special programs	93,998	120,775	108,303	12,472
Bus transportation	5,113	5,113	5,306	(193)
Capital reserve	-	214,754	226,853	(12,099)
Total recreation, cultural, and other	118,968	360,660	362,017	(1,357)
Buildings and Grounds				
Salaries - Full-time	41,679	48,401	47,054	1,347
Employee taxes and benefits	14,737	16,582	15,866	716
Utilities	43,000	46,000	45,133	867
Building maintenance and repair	24,500	24,500	25,285	(785)
Building authority lease	44,500	44,706	43,150	1,556
Equipment maintenance	3,667	1,800	606	1,194
Parking lot and grounds	5,500	5,500	8,404	(2,904)
Total building and grounds	177,583	187,489	185,498	1,991
Total expenditures	2,986,008	3,340,006	3,300,901	39,105
Excess of Revenue Over (Under)				
Expenditures	-	(97,770)	71,219	168,989
Fund Balance - Beginning of year	1,245,670	1,245,670	1,245,670	-
Fund Balance - End of year	<u>\$ 1,245,670</u>	<u>\$ 1,147,900</u>	<u>\$ 1,316,889</u>	<u>\$ 168,989</u>

City of Lathrup Village, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds Year Ended June 30, 2004

	Major Streets Fund			
	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Revenue and Other Financing Sources				
State-shared revenue	\$ 190,000	\$ 190,000	\$ 209,025	\$ 19,025
Investment interest	15,000	15,000	10,697	(4,303)
Total revenue and other financing sources	205,000	205,000	219,722	14,722
Expenditures and Other Uses				
Salaries:				
Full-time	42,754	42,754	41,815	939
Administration	3,950	3,950	4,130	(180)
Employee taxes and benefits	18,232	22,628	22,610	18
Audit and accounting	2,200	2,200	2,200	-
Public service building	9,000	15,000	12,176	2,824
Roads maintenance	18,000	46,300	45,362	938
Roadside maintenance	7,000	6,000	5,500	500
Traffic controls	30,000	20,000	17,393	2,607
Snow and ice removal	5,000	5,656	5,656	-
Forestry	10,000	10,250	10,250	-
Equipment rental	12,645	12,645	12,645	-
Roadside parks	2,500	2,500	-	2,500
Administration and engineering	-	-	1,639	(1,639)
Transfers to other funds	38,394	38,394	38,394	-
Total expenditures and other uses	199,675	228,277	219,770	8,507
Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Uses	5,325	(23,277)	(48)	23,229
Fund Balance - Beginning of year	516,204	516,204	516,204	-
Fund Balance - End of year	<u>\$ 521,529</u>	<u>\$ 492,927</u>	<u>\$ 516,156</u>	<u>\$ 23,229</u>

City of Lathrup Village, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds (Continued) Year Ended June 30, 2004

	Local Streets Fund			Variance with Amended Budget Favorable (Unfavorable)
	Original Budget	Amended Budget	Actual	
Revenue and Other Financing Sources				
State-shared revenue	\$ 90,000	\$ 90,000	\$ 98,391	\$ 8,391
Interest income	-	-	2,252	2,252
Miscellaneous revenue	-	-	7,062	7,062
Operating transfers from other funds	<u>38,934</u>	<u>38,934</u>	<u>38,394</u>	<u>(540)</u>
Total revenue and other financing sources	128,934	128,934	146,099	17,165
Expenditures and Other Uses				
Salaries:				
Full-time	35,286	40,015	39,595	420
Administration	3,950	3,950	4,130	(180)
Employee taxes and benefits	16,810	19,700	19,696	4
Audit and accounting	2,500	2,500	2,500	-
Public service building	8,000	8,000	8,106	(106)
Roads maintenance	18,000	50,000	48,354	1,646
Roadside maintenance	7,000	6,000	6,061	(61)
Traffic controls	10,000	15,000	13,671	1,329
Snow and ice removal	5,000	5,656	5,656	-
Forestry	7,000	8,175	8,175	-
Equipment rental	<u>7,828</u>	<u>7,828</u>	<u>7,828</u>	<u>-</u>
Total expenditures and other uses	<u>121,374</u>	<u>166,824</u>	<u>163,772</u>	<u>3,052</u>
Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Uses	7,560	(37,890)	(17,673)	20,217
Fund Balance - Beginning of year	<u>177,380</u>	<u>177,380</u>	<u>177,380</u>	<u>-</u>
Fund Balance - End of year	<u><u>\$ 184,940</u></u>	<u><u>\$ 139,490</u></u>	<u><u>\$ 159,707</u></u>	<u><u>\$ 20,217</u></u>

City of Lathrup Village, Michigan

Notes to Required Supplemental Information June 30, 2004

Note 1 - Reconciliation of Budgeted Amounts to Basic Financial Statements

The budgetary comparison schedules for the General and Major Special Revenue Funds are presented on the same basis of accounting used in preparing the adopted budget. Following is a reconciliation of the budgetary comparison schedule to the governmental funds (statement of revenue, expenditures, and changes in fund balances):

	General Fund		Major Streets Fund		Local Streets Fund	
	Total		Total		Total	
	Total Revenue	Expenditures	Revenue	Expenditures	Revenue	Expenditures
Amounts per operating statement	\$ 3,242,550	\$ 3,074,048	\$ 219,722	\$ 168,731	\$ 107,705	\$ 155,944
Operating transfers budgeted as revenue and expenditures	129,570	226,853	-	51,039	38,394	7,828
Amounts per budget statement	<u>\$ 3,372,120</u>	<u>\$ 3,300,901</u>	<u>\$ 219,722</u>	<u>\$ 219,770</u>	<u>\$ 146,099</u>	<u>\$ 163,772</u>

Note 2 - Budgetary Information

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds except that operating transfers have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)". All annual appropriations lapse at fiscal year end; encumbrances are not included as expenditures. During the year, the budget was amended in a legally permissible manner.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

City of Lathrup Village, Michigan

Notes to Required Supplemental Information June 30, 2004

Note 2 - Budgetary Information (Continued)

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. On or before the third Monday in April, the City shall submit to the City Council a recommended budget covering the next fiscal year.
2. A public hearing on the proposed budget shall be held before its final adoption at such time and place as the City Council shall direct.
3. The budget shall be adopted no later than the third Monday in May of each year.
4. The budget is adopted by department and fund on an activity basis. Subsequent amendments thereto shall be submitted from time to time by the City Administrator for their consideration.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the City did not incur any expenditures that were significantly in excess of the amounts budgeted.

Other Supplemental Information

City of Lathrup Village, Michigan

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2004

	Special Revenue Funds		Capital Projects Fund	Total Nonmajor Governmental Funds
	Capital Acquisition Fund	Budget Stabilization Fund	Rainbow Circle Special Assessment Fund	
Assets				
Cash and investments	\$ 300,593	\$ -	\$ -	\$ 300,593
Due from other funds	218,018	-	89,041	307,059
Total assets	<u>\$ 518,611</u>	<u>\$ -</u>	<u>\$ 89,041</u>	<u>\$ 607,652</u>
Liabilities and Fund Balances				
Liabilities - Due to other funds	\$ 13,351	\$ -	\$ 89,041	\$ 102,392
Fund Balances - Unreserved - Undesignated	505,260	-	-	505,260
Total liabilities and fund balances	<u>\$ 518,611</u>	<u>\$ -</u>	<u>\$ 89,041</u>	<u>\$ 607,652</u>

City of Lathrup Village, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds Year Ended June 30, 2004

	Special Revenue Funds		Capital Projects Fund	Total Nonmajor Governmental Funds
	Capital Acquisition Fund	Budget Stabilization Fund	Rainbow Circle Special Assessment Fund	
Revenue				
Interest and rentals	\$ 2,116	\$ -	\$ -	\$ 2,116
Other	-	-	-	-
Total revenue	2,116	-	-	2,116
Expenditures - General government	34,650	-	-	34,650
Excess of Expenditures Over Revenue	(32,534)	-	-	(32,534)
Other Financing Sources (Uses)				
Transfers in	69,073	-	-	69,073
Transfers out	-	(129,570)	-	(129,570)
Total other financing sources (uses)	69,073	(129,570)	-	(60,497)
Net Change in Fund Balances	36,539	(129,570)	-	(93,031)
Fund Balances - Beginning of year	468,721	129,570	-	598,291
Fund Balances - End of year	<u>\$ 505,260</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 505,260</u>

September 17, 2004

Honorable Mayor and Members
of the City Council
City of Lathrup Village
27400 Southfield Road
Lathrup Village, MI 48076

Dear Mayor and Council Members:

We have recently completed the audit of the financial statements of the City of Lathrup Village for the year ended June 30, 2004. In addition to our audit report, we offer the following comments and recommendations for your consideration:

New Financial Statement Format

During the current year, the City, along with many other communities in Michigan, was required to implement a new accounting pronouncement that has changed the format and content of your financial statements. The information that was previously provided in your financial statements has been retained in the new financial statement format. In addition, the following major items have been added:

- *Management Discussion and Analysis:* Management is now required to give an overview of the City's overall financial position and results of operations. This section provides an overview of the City's finances, as well as major projects worked on throughout the year.
- *Government-wide Financial Statements:* These additional statements adjust the normal fund-based statements into a combined, full-accrual format. This allows a financial statement reader to see the City from a longer term perspective (i.e. are today's taxpayers paying the full cost of today's services?). These statements show capital and infrastructure assets, as well as long term debt as part of the City's financial picture.
- *Budget Comparison:* A financial statement reader will now be able to view not only the actual revenue and expenditures of the City as compared to the amended budget, but also as compared to the original budget.

While getting used to the new format may take a while, the GASB hopes that the new model will improve comparability of financial statements among communities and will provide a better matching of the current year's revenue sources to the full cost of services provided during that year.

Accumulating the information necessary for the new financial statement format has meant additional work for the City's accounting department. The City's staff has done an excellent job of preparing the necessary schedules, as well as assisting and cooperating with the audit work being done on those schedules.

A member of



A worldwide association of independent accounting firms

We would be happy to discuss any questions you may have about the new statements and how to best interpret the information provided.

Condition of the Financial Records

We would like to compliment the City for its overall continued improvement in the accuracy of its unaudited general ledger. We noted that additional steps were taken in the current year to ensure items that once were booked only at year end as audit adjustments, were adjusted throughout the year. This additional attention to these details will result in more accurate monthly financial reporting.

Internal Control Considerations

During the year's audit, we were required to adopt the Statement on Auditing Standards Number 99 (referred to as SAS 99) entitled Consideration of Fraud in a Financial Statement. SAS 99 requires new procedures regarding the auditor's consideration of the possibility of fraud in a financial statement audit. This resulted in new and additional testing in the conduct of this year's audit. The Council should be pleased to note that the extra inquiries and testing that was required did not reveal any material problem not already addressed by the City.

Utility Billing

As noted in prior year, there appears to be an issue with the Water and Sewer billing system software. The outstanding balance report still does not foot and can not be relied on as an accurate balance of money that is owed to the City. Despite efforts by the Treasurer to work with Fund Balance, this problem has still not been resolved. The City should continue to work with its vendor to determine the cause of this problem and a potential resolution. Once the problem is corrected, the City should begin reconciling, on a monthly basis, the outstanding balances report to the general ledger balances to ensure that revenue and receivable balances are being recorded correctly.

LEGISLATIVE AND OTHER MATTERS

State Funding Overview

As mentioned above, the City will continue to feel the effects of the State's budget difficulties. State shared revenue accounts for approximately 13% of the City's total General Fund revenue. While statewide sales tax collections (the sole source of revenue sharing payments to local units of government) are actually holding up, the State's income tax and single business tax revenues continue to be disappointing, resulting in state budget problems.

State Funding Overview (Continued)

As mentioned above, the City will continue to feel the effects of the State's budget difficulties. State shared revenue accounts for approximately 13% of the City's total General Fund revenue. While statewide sales tax collections (the sole source of revenue sharing payments to local units of government) are actually holding up, the State's income tax and single business tax revenues continue to be disappointing, resulting in state budget problems.

As a result, the State reduced its revenue sharing payments in each of the years ended September 30, 2002, 2003 and now 2004. The Governor has presented her proposal for the September 30, 2005 budget to the Legislature. The Governor's proposal is to hold state shared revenue steady for cities, townships and villages for 2005. Counties would find their state shared revenue eliminated and be allowed to levy taxes that would go into an escrow fund and be used to assist with the loss of revenue sharing over a period of years. The Legislature continues to debate the Governor's budget proposal, which could be modified prior to passage.

It appears that the short term future of state shared revenue is tied to the increase in the cigarette tax. Also, the counties are opposed to the elimination of statutory revenue sharing. Due to this line item in the State's budget remaining vulnerable, we continue to urge the City to be conservative in its estimation of state share revenue. We recommend the City budget at least 5% less than 2003/2004 levels. This will serve as a precautionary measure against the State's uncertain budget.

We recommend that the City continue to evaluate the impact of the revenue sharing reductions on the 2004 budget. In addition, updated information can be obtained from the Department of Treasury's web site or by calling the Office of Revenue and Tax Analysis at (517) 373-2697. We will continue to update the City as developments occur.

Property Taxes

As you recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is:

2003	1.5%	1998	2.7%
2002	3.2%	1997	2.8%
2001	3.2%	1996	2.8%
2000	1.9%	1995	2.6%
1999	1.6%	1994	3.0%

The increases in the taxable value of property for 1999, 2000 and 2003 were the lowest increases since the 1994 adoption of Proposal A. The 2003 inflation factor is being used for property taxes levied in the City's year ended June 30, 2004. Property taxes are the City's largest source of General Fund revenue. However growth in existing property can be significantly limited due to Proposal A. The 2004 inflation factor is 2.3%.

Property Taxes (Continued)

In addition, the Headlee Amendment to the Michigan Constitution limits the amount of taxes that can be levied by the City. In general terms, if growth on the City's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the City to "roll back" its property tax rate to inflation. Prior to the passage of Proposal A in 1994, during years when the growth on the City's existing property tax base was less than inflation, the Headlee Amendment allowed the City to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back". However, subsequent to the passage of Proposal A, the City was no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation.

Municipal Finance Act Revisions - Reminder

The Municipal Finance Act was amended during 2001. Beginning after March 2002, communities are now required to submit a filing (Municipal Qualifying Statement) once a year with the Michigan Department of Treasury. This filing can be done online with the Michigan Department of Treasury. The old ten-day "exemption from prior approval" process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for debt issuances. The current filing is due within six months of the City's year-end which means that the City of Lathrup Village's filing is due December 31, 2004 and is good for one year thereafter.

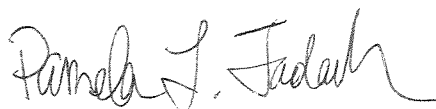
We would like to thank the Council for the opportunity to serve as auditors for the City. We would also like to express our appreciation for the courtesy and cooperation extended to us by the administration during the audit. If you would like to discuss any of these matters, or would like assistance in their implementation, please contact us.

Very truly yours,

PLANTE & MORAN, PLLC



Leslie J. Pulver



Pamela L. Jadach